



THE DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

JAN 28 1971

Dear Senator Ribicoff:

Thank you for your transmittal of January 4, previously acknowledged by Mr. Smith, Special Assistant to the Secretary for Congressional Relations, enclosing the correspondence from Professor Joshua Lederberg of Stanford, California. Professor Lederberg suggests a modification in the tax laws to lessen "tax-loss selling" at the end of every calendar year.

The Treasury Department believes that tax-loss selling is not a serious problem either for the financial markets or for the tax system. In 1970, tax-loss selling exerted very little pressure. During the last 30 market days, the Dow Jones Industrial Average rose 80 points from just under 760 to just under 840. On only seven of those days did the Industrial Average decline.

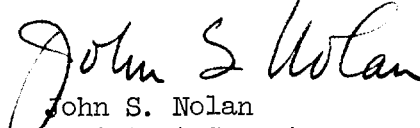
Tax-loss selling may lead to an increase in the volume of transactions, but it probably has very little effect on the stock averages. The explanation for this is as follows: Some tax conscious investors will want to sell at the end of a tax year to establish a loss. Other equally sophisticated investors will be watching the markets for signs of bargains. If the price of a stock falls very much, the bargain hunters will step in and support the market. In addition, as stock prices begin to fall, the tax advantages of establishing a loss this year as against next year are eliminated. This also puts a floor on price drops due to tax-loss selling.

The proposal by Professor Lederberg to allow a declining portion of any losses realized in January, February, or March to be applied to the previous year's income, at the taxpayer's option, would increase the ability of the taxpayer to time the realization of losses to achieve significant tax savings. As long as capital gains income receives the very favorable tax treatment which it now does, there seems to me to be no case for permitting a more generous deduction of losses. Since the timing of the tax on capital gains is at the option of the taxpayer, some limitation must be put on the deductibility of losses. It seems undesirable to me to permit the taxpayer once he has realized a loss to choose which tax year to deduct the loss even if only a declining portion of the loss is deductible against a prior year's income.

- 2 -

Thank you for giving me this opportunity to comment on Professor Lederberg's suggestion.

Sincerely yours,

A handwritten signature in cursive script that reads "John S. Nolan". The signature is written in dark ink and is positioned above the printed name.

John S. Nolan
Deputy Assistant Secretary

The Honorable
Abraham A. Ribicoff
United States Senate
Washington, D. C. 20510